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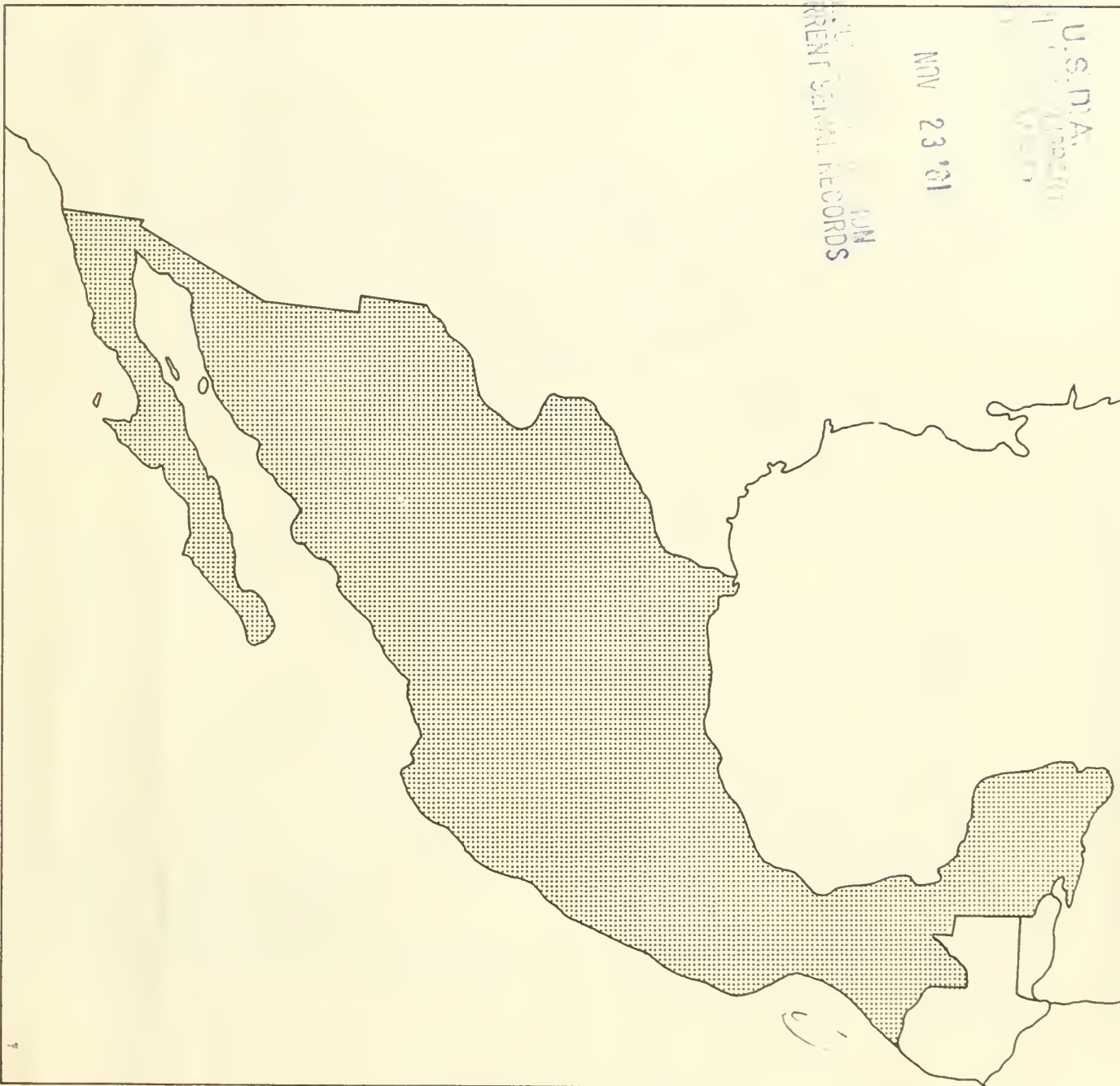
Mexico: Agricultural and Trade Policies



United States
Department of
Agriculture

Foreign
Agricultural
Service

FAS-306



Major Agricultural Production in Mexico



BASIC FACT SHEET

Geography

Area: 1,971,000 sq. km.

Cities: Capital—Mexico City (18 million). Other cities—Guadalajara (2.5 million), Monterrey (2.1 million), Puebla (500,000), Ciudad Juarez (500,000).

Geography: Topography ranges from low desert plains and jungle-like coastal strips to high central plateaus and rugged mountains.

Land use: 12 percent cropland, 40 percent pasture, 22 percent forested and 26 percent other (including waste, urban areas, public lands).

Climate: Mostly dry with only about 12 percent of the total area receiving adequate rainfall in all seasons, while about half is deficient in moisture throughout the year. Temperatures range from tropical in the coastal lowlands to cool in higher elevations.

People

Population: 68,236,000 (January 1981).

Annual growth rate: 2.4 percent (current).

Ethnic divisions: 60 percent mestizo, 30 percent Indian or predominantly Indian, 9 percent white or predominantly white, 1 percent other.

Religion: 97 percent Roman Catholic, 3 percent other.

Language: Spanish.

Literacy: 65 percent estimated; 84 percent claimed officially.

Labor force: 18.0 million in 1978 (defined as those 12 years of age and older); 33.0 percent agriculture; 16.0 percent manufacturing; 16.6 percent services; 16.8 percent construction, utilities, commerce and transport; 3.0 percent government; 5.4 percent unspecified activities; 10 percent unemployed, 40 percent underemployed.

Government

Legal name: United Mexican States

Type: Federal republic operating in fact as a one-party, centralized government.

President, 1976-1982: Jose Lopez Portillo y Pacheco.

Legal system: Mixture of U.S. constitutional theory and civil law system; constitution established in 1917; judicial review of legislative acts.

National holiday: Independence Day, 16 September.

Economy

GDP: \$167 billion (1980), \$2,447 per capita; 62 percent private consumption, 12 percent public consumption, 16 percent private investment, 11 percent public investment (1979).

Balance of trade (1980): \$-3.3 billion.

Real growth rate (1980): 7.4 percent.

Government role in exporting: Export taxes; export licenses required on some items; Government controls petroleum industry and oil exports.

Government role in importing: Strict prior licensing system provides quantitative control; basic agricultural imports usually purchased directly by the Government.

Major crops: Coffee, corn, dry beans, tomatoes, winter vegetables, strawberries.

Other major industries: Petroleum, natural gas, petrochemicals.

Total imports (1980): \$186 billion (c.i.f.); machinery, equipment, industrial vehicles, and intermediate goods; trade partners—63 percent U.S., 21 percent E.C., 7 percent Japan (1979).

Total exports (1980): \$15.3 billion (f.o.b.); cotton, coffee, nonferrous minerals (including lead and zinc), sugar, shrimp, petroleum, sulfur, salt, cattle and meat, fresh fruit, tomatoes, machinery and equipment; trade partners—69 percent U.S., 12 percent E.C., 3 percent Israel, 3 percent Japan (1979).

Total agricultural imports (1980): \$3.187 billion.

Total agricultural exports: (1980): \$2.317 billion.

Sources: *The World Factbook—1981 and Marketing in Mexico.*

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MEXICO: AGRICULTURAL AND TRADE POLICIES

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SUMMARY

Mexico is usually considered a country where the private sector is dominant in business matters and this is basically true of agricultural production. However, the Mexican Government is extensively involved in the marketing, distribution, and pricing of many "basic" agricultural commodities, and in the supply of necessary farm inputs and marketing infrastructure. For commodities other than grains, oilseeds, sugar, coffee, and dairy products, the Government's involvement is usually considerably less.

The Sistema Alimentario Mexicano (SAM) was implemented in 1980 as the underlying agricultural and nutritional plan for the country. Its primary goals are self-sufficiency in the production of Mexico's staple crops (including corn, beans, wheat, safflower, and sesame) and improvement of the diets of some 35 million Mexicans judged by the Government to be undernourished. The self-sufficiency goal is a reaction to Mexico's recent and overwhelming reliance on imported foodstuffs. How much this policy will actually restrict imports will depend on Mexico's success in expanding production from its rainfed areas and the degree of emphasis given to reducing malnourishment. Agricultural exports are indirectly affected by the SAM because domestic food needs will take priority over exports. However, another Mexican goal, that of reducing the nation's dependence on oil export revenues, may serve as a basis for eventually expanding exports of some agricultural commodities, particularly horticultural products.

The Mexican National Basic Commodities Company (CONASUPO) is a semiautonomous governmental organization with a major responsibility for making basic commodities available to poor Mexican consumers at prices they can afford. As such, it is directly involved in the purchase, processing, stor-

age, distribution, marketing, and pricing of certain basic commodities, whether imported or domestically produced. In addition, the Secretariat of Commerce, in conjunction with CONASUPO and the Secretariat of Agricultural and Water Resources, directly controls the import and export of many agricultural products through licensing requirements and import and export taxes. Various policies come into play in decisions to grant the required permits, including satisfying domestic demand, diversifying exports, protecting domestic industries from competitive imports, and restricting unnecessary or "luxury" imports. Particular agricultural associations, such as the vegetable producers union and livestock associations, are very visible in the actual import and export decisions and actions of Mexico, but they are limited to working within the overall framework established by the executive branch of the Government.

Mexico is not a member of the General Agreement on Tariffs and Trade (GATT) and faces few external obligations with regard to its trade policy. As a member of the Latin American Integration Association (LAIA) it does offer some trade preferences to other member countries. Mexico's freedom to change tariffs or ban imports without external obligations is a major destabilizing factor in its trade with other countries.

The Mexico of today is a rapidly changing nation—both internally and in its world position. Its recently exploited oil wealth is giving it the financial resources to subsidize domestic development or increase its purchases from world markets. At the same time, its rapidly growing population and internal demand may have already outstripped the productive capacity of the country's agricultural resources. It is impossible to say what Mexico's trade policy and problems will be in the future. But one thing is certain—Mexico will be an extremely important element in the international trade scene.

INTRODUCTION -- BASIC DATA

Mexico covers 200 million hectares bordered by the United States to the north and the Central American countries of Guatemala and Belize to the south. It has both Atlantic (Gulf of Mexico) and Pacific coastlines and a topography as diverse as might be expected of such a large land mass. Mexico's major features are two chains of mountain ranges running basically north-south along the western and eastern edges of the country. These two ranges converge into one mountainous region in the central part of the country before continuing in a southeasterly direction into and through Central America. Arid desert predominates in the north, a high plateau occupies the center, and low-lying jungle covers the southern portion of the country and the eastern Yucatan peninsula.

Mexico is divided into 31 States and the Federal District, site of the capital city. Ethnically, most of Mexico's population of about 70 million are mestizos, descendants of mixed blood of the original Indian tribes and the colonizing Spaniards and other Europeans. Indians, accounting for approximately one-third of the population, are concentrated primarily in the southern areas and in isolated pockets throughout the country. With the exception of those Indian groups, which still retain their own languages, Spanish is the common and official language of Mexico. The population growth rate of Mexico has been one of the highest in the world, although it appears to have been declining slightly in recent years. Nonetheless, population growth is still estimated at around 2.9 percent annually, and over one-half of the population is under 15 years of age.

The majority of Mexico's people now live in urban settlements (over 15,000 inhabitants), with nearly one-fourth of the total living in Mexico City, the capital. Other major population centers include Guadalajara in the west (1.9 million in 1978), Monterrey (1.7 million) in the north, Puebla (500,000) in the central part of the country, and Ciudad Juarez (500,000) on the Texas border. Whereas the literacy rate in Mexico is now over 82 percent and over 70 percent of the population between 6 and 14 attends school, enrollments drop sharply for higher age groups and only 5 percent of the 20-to-24 age group is attending school.

Mexico was one of the first of the New World countries to be conquered and colonized by the Spanish conquistadores, and remained under colonial rule until independence in 1810. A series of unstable Governments followed, including various dictatorships and a brief period of French rule. The Mexican Revolution of 1910-17 was a massive social revolution against a system of hacienda or plantation-type land holdings and rule by a small, wealthy elite. The Constitution of 1917 is the basis for the system of government in effect today. Often referred to as a "one-party democracy," the Mexican Government has been controlled since 1946 by the Institutional Revolutionary Party (PRI) from which the president is chosen. Each president is limited to one 6-year term, but traditionally he hand-picks his successor as well as the

holders of most major Federal and State positions of political power. A bicameral legislature (64-member Senate and 300-member Chamber of Deputies) is also dominated by PRI members. Opposition parties do exist in Mexico and range from conservative, business-oriented parties to communist and socialist parties, but none has ever had enough power to threaten PRI's political domination.

Mexico's gross domestic product in 1979 was \$84 billion 1978 (U.S. dollars), or about \$1,382 per capita. Total gross domestic product grew at an annual rate of 6 percent from 1960 to 1979, and per capita income growth averaged about 2.5 percent a year. Mexico's economy did not experience impressive growth until after World War II, when it began to achieve current growth rates. Most of the country's economic expansion has been in industry, especially in the manufacturing of chemicals, petrochemicals, fertilizer, and pharmaceuticals. The most recent impetus to growth has been exploitation of Mexico's extensive petroleum and natural gas resources; Mexico's potential petroleum reserves are estimated to be near those of Saudi Arabia. The daily average extraction of crude petroleum is projected to reach 2.75 million barrels in 1981. Mexico is also a leading world supplier of silver, sulfur, lead, and zinc and it produces gold, copper, manganese, coal, and iron ore. Manufacturing accounts for over one-fourth of both the GDP and exports, although rapidly growing domestic demand has been absorbing an increasing proportion of production.

Over 22 percent of Mexican industry is state-owned and there has been a steady flow of public funds into utilities, roads, railroads, and other infrastructure projects supporting development. Continued petroleum exploitation, however, absorbs a major part of the resources generated by that industry.

Agriculture remains the weakest sector in the Mexican economy, with production declining in 1979 after several years of relatively low growth. There is a severe shortage of arable land in Mexico, with only 31-34 million of the country's 200 million hectares considered arable. Lack of sufficient water, either from rainfall or irrigation, is also a major limitation. Some 85 percent of Mexican farms are small plots that account for only 25 percent of the country's crop sales and, although massive land reform was one of the major goals of the Mexican Revolution, there are still about 3 to 4.5 million landless peasants.

Corn (maize) and beans are major staples in the Mexican diet and, therefore, major agricultural crops. An estimated 57 percent of the planted acreage in Mexico is devoted to growing corn and beans. Grain sorghum, wheat, rice, soybeans, cotton, cottonseed, and safflower are other important grains and oilseeds produced in Mexico. Coffee has long been Mexico's major export crop, followed by tomatoes and other horticultural products.

Government measures to alleviate problems in agriculture have recently been given a new priority through the Mexican Food System or SAM (Sistema Alimentario Mexicano). The focus of this development plan is on the rainfed regions of Mexico and on the estimated 35 million malnourished Mexicans. Goals include self-sufficiency in bean and corn production, as well as that of other basic commodities, through expanded acreage, irrigation, and extension and various credit and production incentives.

Mexico's petroleum wealth has given the country the wherewithal for impressive economic growth and development, but substantial obstacles remain. Not least among these are an inflation rate approaching 30 percent and massive foreign debt obligations. The transportation and communications networks in Mexico have not kept pace with the country's economic development and now create potentially crippling bottlenecks in moving products within Mexico and across its international borders. Income distribution in Mexico is excessively skewed; the poorest 50 percent of the population accounts for only 15 percent of national income while the wealthiest one-fifth accrues 60 percent. An unemploy-

ment rate of 15 percent and a chronic underemployment rate of 35 percent, along with the inequitable distribution of income, have created strong pressures among the rural poor to migrate either to Mexico's largest cities or across the border into the United States.

Another constraint on the Mexican economy at this time is the value of the peso. Although officially described as "floating," the value of the peso has only been allowed to decline slowly relative to the dollar. Yet most analysts agree that the Mexican peso is currently overvalued, which limits the competitiveness of Mexican exports in world markets. The last major peso devaluation in September 1976 was followed by riots and massive social unrest and destabilized the Mexican business community. Fear that similar reactions would accompany a devaluation at this time will probably prevent any such action by the current administration. Although the problems with the peso now stem from overvaluation, in the future it is possible that the real value of the peso will increase substantially because of its backing by Mexican oil resources.

AGRICULTURAL TRADE

Once a major exporter of food, Mexico's agricultural production has not kept pace with the growing demands of its population and the country has begun to rely heavily on imports to meet its food and feed needs. Coffee ranks as Mexico's second most important export product behind crude oil and fresh tomatoes rank third. Cotton, other fresh vegetables and fruit, and live cattle make up the bulk of Mexico's other agricultural exports. The country's principal imports, on the other hand, consist of sorghum, corn, beans, and other grains as well as oilseeds and nonfat dry milk. Breeding cattle and various meat products also contribute significantly to Mexican agricultural imports.

Almost 30 percent of U.S. agricultural imports from Mexico consists of coffee. However, Mexican coffee constitutes only about 10 percent of all U.S. coffee imports. There are no notable problems in the trade in coffee, which enters the United States free of duty and does not compete with U.S. products. The Mexican Coffee Institute, INMECAFE, controls exports through the issuance of export registrations that conform to the International Coffee Agreement quota system. Another major concern of INMECAFE is ensuring that the domestic market is adequately supplied with coffee.

The second most valuable Mexican agricultural export crop is fresh tomatoes, accounting for over 12 percent of Mexican agricultural export earnings. The United States is the major market for these tomatoes and various other vegetables including cucumbers, peppers, eggplant, squash, and asparagus. During the winter months, Mexico is essentially the sole foreign supplier of the U.S. market and may account for 50 percent of the supplies available in the United States at that time. Mexican production of winter vegetables is concentrated in the fertile valleys of the western State of Sinaloa.

It is a very modernized industry basically oriented toward exports to the United States. Because these vegetables compete with U.S. produce, trade in them has been one of the contentious issues in U.S.-Mexican agricultural trade relations.

Mexico's other horticultural exports of importance are strawberries and citrus fruits. Strawberry production is concentrated in central Mexico and frozen strawberry exports have been so large in the past that a U.S. quota system was established. However, the quota was never actually imposed on Mexican frozen strawberries because market conditions changed. In recent years, Mexican exports of frozen strawberries have declined due to declining domestic production, the quality of the Mexican produce, a shortage of sugar for processing, and increasing domestic demand for fresh strawberries.

The major Mexican citrus exports consist of frozen orange juice concentrate, fresh oranges, limes, and grapefruit. Again, the United States is the major market for these exports.

Live cattle are another major export product, entering the United States as "feeder" cattle to be finished at feedlots before slaughter. Until 1979, Mexico was a supplier of fresh beef to the United States; at times its exports were restrained under the U.S. Meat Import Act of 1964 (later superseded by the Meat Import Act of 1979). The growing demand for meat within Mexico, due to the growth in both population and per capita income, resulted in domestic shortages of meat beginning in 1979 and caused a temporary cessation of exports. The Mexican Government also attempted to embargo the export of live cattle early in 1979 and divert them to satisfy the demand for beef in Mexico City and other metropolitan areas. This effort was hampered by a coincidental

deterioration in pasture conditions in the northern grazing areas because of a severe drought. It was also impeded by transportation factors, price differentials, and established marketing procedures which all dictated a continuation in the northward flow of cattle. However, cattle exports are still controlled by an annual quota and licensing procedure, and export taxes are charged.

As indicated previously, Mexican agricultural imports in 1980 were more than double those of 1979, and over four times greater than 1975 imports. The greatest increases and the bulk of these imports have been in basic commodities such as grains, oilseeds and nonfat dry milk (NFDM). At one time Mexico was a net grains exporter and essentially self-sufficient in the production of its major staple crops of corn and beans. Production increases have not kept pace with growing demand, and consecutive years of adverse weather and poor production recently reduced Mexican stocks of these important commodities to critical levels. The result was a dramatic increase in imports of corn, beans, sorghum and wheat, almost exclusively from the United States. Sorghum and corn ranked fourth and fifth in value among total Mexican imports in 1980 (both agricultural and industrial), and corn was over 27 percent of the U.S. agricultural exports to Mexico that year. In 1979, the Mexican Government contracted with U.S. producers of dry beans to ensure that pinto and black beans would be produced in sufficient quantities to alleviate much of the shortfall in Mexican supplies.

Mexican imports of oilseeds have been growing rapidly too. The primary oilseed is soybeans, but cottonseed and sunflowerseed are also imported. Mexico does produce soybeans, sesame seed, and cottonseed, but not in sufficient quantities to meet both food and feed requirements.

Mexico also has insufficient dairy production and it relies heavily on imported NFDM to meet consumers' needs. This is one major Mexican agricultural import for which the

United States is not regularly the overwhelming supplier; Mexico purchases dry milk from Canada, Ireland, Australia, and New Zealand in addition to the United States.

Breeding cattle are another large-value import into Mexico, and again the United States is the principal supplier. In addition, Mexico imports a sizeable quantity of variety meats and meat products, as well as some pork and poultry meat. Other animal products, particularly large quantities of lard and tallow, are imported into Mexico, as well as hides and skins for the leather industry.

Mexico's major partner in agricultural trade, as in industrial trade, is the United States. In fact, well over two-thirds of Mexico's agricultural exports are destined for the United States, and it receives perhaps 90 percent of its import needs from the United States. Moreover, Mexico is frequently the second largest agricultural supplier (on a value basis) to the United States and in 1980 it ranked as the third largest market for U.S. farm exports.* Traditionally, as can be seen in tables 1 and 2, Mexico has had an agricultural trade surplus relative to the United States. This gap closed slowly until 1979 when trade flows were approximately balanced at about \$1 billion in each direction. In 1980, however, U.S. agricultural exports to Mexico reached \$2.5 billion, whereas imports were only \$1.1 billion. Although this massive increase in Mexican imports in 1980 was largely due to the disastrous effects of poor weather, the rapidly growing food and feed demands of Mexico are likely to cause the trade balance to remain in the United States' favor for some time.

Once a net agricultural exporter, the increasing dependence of Mexico on imported food and feed products has led to an agricultural trade deficit. This has contributed to an overall negative balance of trade, in spite of the increasing foreign reserves generated by Mexican oil exports. The negative balance did decrease significantly in 1980, however, to about \$887 million, less than one-third of the 1979 level.

*Unadjusted for transshipments.

Table 1.—U.S. agricultural imports from Mexico principal commodities

Commodity	1975	1976	1977	1978	1979	1980
	------(1,000 dollars)-----					
Beef and veal	18,569	32,725	38,265	56,342	6,294	598
Live cattle	25,068	60,961	80,186	129,653	92,871	88,782
Fresh tomatoes	64,132	72,429	149,406	161,097	153,183	130,956
Frozen strawberries	19,174	10,696	21,657	19,032	31,741	24,921
Molasses	22,027	24,883	19,678	22,647	30,893	16,736
Cocoa beans & chocolate	5,049	21,296	17,163	16,172	24,178	21,602
Coffee	138,416	267,679	396,994	294,989	420,072	311,272
Fibers	16,107	15,609	14,293	20,929	21,026	17,959
Other	200,132	204,738	275,456	383,596	449,105	446,399
Total	508,674	711,016	1,013,098	1,104,457	1,229,363	1,059,225

Source: U.S. Department of Commerce, Bureau of the Census.

Table 2.—U.S. agricultural exports to Mexico principal commodities

Commodity	1975	1976	1977	1978	1979	1980
	----- (1,000 dollars) -----					
Wheat/wheat flour.	13,040	296	41,392	88,813	197,236	123,464
Corn.	208,778	82,593	176,311	159,949	113,978	677,894
Sorghum	62,489	1,068	66,823	64,968	154,017	318,558
Soybeans	6,705	57,165	108,323	178,796	118,277	259,411
Dairy products.	15,876	16,208	11,855	21,368	25,291	70,972
Live animals	35,176	34,907	18,005	19,585	25,063	17,852
Variety meats	9,330	10,682	7,030	9,935	16,522	26,610
Lard.	14,533	12,981	15,411	15,557	16,662	12,785
Tallow & greases.	12,067	9,717	17,217	21,486	34,543	48,121
Hides and skins	27,299	30,359	37,053	54,585	102,040	69,614
Other	180,360	11,915	164,985	268,103	219,855	865,011
Total	585,653	369,891	664,405	903,145	1,023,484	2,490,292

Source: U.S. Department of Commerce, Bureau of the Census.

FOOD AND AGRICULTURAL POLICIES

In March 1980, Mexican President Lopez Portillo announced a reorientation of agricultural policy through a national nutritional program known as SAM, the Sistema Alimentario Mexicano. The basic concern underlying the plan is avoidance of some of the problems which have plagued other major oil-exporting countries, such as the distortion of consumption habits toward nonessential items and growing dependence on agricultural imports.

The target goals for SAM were derived from a comprehensive food profile of Mexico completed in 1979. Compared with previous surveys, it revealed significant changes in nutrition patterns. Approximately 35 million Mexicans had diets lacking the minimal daily nutritional requirements of 2,750 calories and 80 grams of protein. Within this larger population, the profile defined a smaller and more seriously malnourished group of some 13 million people in rural areas and 6 million in urban areas.

Twelve programs have been announced as part of SAM since the spring of 1980. These programs involve at least seven different executive agencies, each of which has been assigned substantive roles that apparently supersede their present programs.

Because the poorest of the rural poor, and thus the more seriously malnourished, are landless or smallholders located in the rainfed areas, SAM will concentrate its efforts there. Furthermore, the notion is that due to previous neglect the rainfed districts have great potential for increased production. These areas are found for the most part in the central highlands.

The primary objective of SAM is to achieve self-sufficiency in corn and beans by 1982 and in other basic foods by 1985. To reach these goals, the main strategy is to expand the acreage devoted to staples and increase yields. The main instru-

ment employed for the short run is price policy. The 1980-81 guaranteed prices for corn, wheat, and sorghum were increased 28, 18, and 24 percent, respectively, over their levels the previous year. In addition, available credit was increased by about one-third, with interest rates below commercial levels, and crop insurance premiums were lowered by 3 percent.

The long-term strategy emphasizes increased acreage for cultivation and higher rates of productivity. The new lands for this acreage increase are presumed to be located principally in the tropical Gulf Coast, much of which is presently in pasture. Increased productivity will be sought primarily in the rainfed districts.

The major instruments to support greater self-sufficiency will be the reorientation and expansion of applied research, credit, guaranteed prices, and technical assistance, and greater use of production inputs, especially fertilizers and insecticides. A novel feature in SAM concerns "shared risks," whereby in cases of disaster the Government guarantees a minimum income based on average historic farm income. In such circumstances, compensation is based on local productivity norms, repayment of production costs, and guarantees of prices. To qualify, the producers must participate in "technological improvements." Peasant organizations will be asked to persuade their members to participate in the program "in alliance with the state."

On the consumption side, SAM will encourage what is called "Basic Recommended Baskets" or model diets for three regions of the country. The recommended foods will be linked to the production goals in those various regions. In the north the emphasis will be on wheat; in the Gulf zone rice; and in the southeast corn. The cereals in the three regions will be complemented with beans. For the target groups in these regions to receive these foods, the state will have to make the

distribution more effective in various marketing channels. The major efforts in this area will be undertaken by CONASUPO, the Government's basic commodity agency, and its related organizations.

The overall price tag for subsidizing inputs, production, and consumption will be enormous. The estimates for 1980 are about 50 billion pesos (US\$2.0 billion) for production and 35 billion pesos (US\$1.5 billion) for consumption.

It is doubtful that SAM will work to the extent that Mexico achieves self-sufficiency in corn and beans by 1982 and in other commodities by 1985. Administrative capacity is one limitation. The emphasis on rainfed areas and new lands will require progress in credit, crop insurance, price supports, marketing, and extension services, that exceeds present administrative capabilities. The problem is more acute with regard to new lands, because here the infrastructure requirements (feeder roads, housing, sanitation, and education) are greater and the regions are less accessible.

In addition, SAM's estimates of the production needed to attain self-sufficiency are probably too low. This is because these estimates are based on a modified basic human needs approach in defining a minimum adequate diet. They do not consider the fact that incomes are rising as the middle class develops, and demand for many basic agricultural commodities is shifting to include more animal proteins.

SAM's emphasis on the rainfed districts puts it at the mercy of the weather. More than half of Mexico is considered arid or semiarid, and rainfall is critical. In 4 of the past 9 years rainfall was 10 percent or more below the 20-year average and only twice was it 10 percent higher than normal.

For the first 2 years, SAM implies that production increases will come from shifts in crop areas, which could cause shortages and higher imports of some foods. In the longer term, SAM indicates new lands will be brought into crop production, but specifically where this will occur is unclear. Consequently, SAM's implications for future import needs remain unclear. But even if SAM fails in its aim for self-sufficiency, it can succeed in laying the groundwork for reorienting agricultural policy to more fully address the needs of Mexico's hungry poor.

Mexican President Lopez Portillo has charged all Government agencies with fulfilling whatever portions of the SAM plan apply to them. The primary agency involved in agriculture in Mexico is the Secretariat of Agricultural and Water Resources (SARH), which is responsible for irrigation and implementing production and extension projects. The Secretariat of Agrarian Reform (SRA) has primary responsibility for implementing land redistribution policies and establishing "ejidos," Mexican communal farms. Fertilizer production and distribution are under the control of the state-owned FERTIMEX (Mexican Fertilizers), while seeds are handled by the state agency, PRONASE (National Seed Promotion Agency). The Mexican Ministry of Commerce is involved in agricultural policy primarily through its direct role in regulating imports and exports.

A semiautonomous governmental agency, the National Basic Commodities Company (CONASUPO), plays a key role in marketing agricultural products to ensure adequate supplies of food to low income groups in Mexico. CONASUPO purchases grains and oilseeds from producers through its rural purchasing centers at support prices set by the Government. Roughly 40 to 50 percent of the grain and oilseeds produced in Mexico are purchased by CONASUPO. CONASUPO and Almacenes Nacionales de Depósito (ANDSA), a dependent agency of CONASUPO, operate an extensive series of storage facilities, as well as grain and oilseed processing plants. CONASUPO also operates retail outlets for many "basic" products, primarily to ensure that food supplies at Government-suggested prices will be available in rural and urban areas. Retail prices for agricultural products considered to be basic to the Mexican diet, including flour, eggs, beans, tortillas, bread, some cooking oils, sugar, and milk, are subject to Government-imposed price ceilings throughout Mexico. The price ceilings may vary for different locations in Mexico, and are periodically reviewed and modified.

Mexican producers are not required to produce certain crops or to sell their harvest to CONASUPO. In fact, perhaps 20-25 percent of the bean and corn production in Mexico never even enters commercial channels because it is consumed by the producers or neighboring households. This proportion is much smaller for less "traditional" crops such as wheat, soybeans, sunflowerseed, and cottonseed. Government incentives to encourage production of one crop instead of another through price supports, therefore, affect primarily the larger commercial farmers. Special rural credit rates, seed and fertilizer distribution policies, and extension/educational programs are also used as incentives for farmers to fulfill Governmental agricultural policies.

Producers may sell to non-Government millers and processors at prices above the support levels, but the processed or semi-finished products of these processors frequently are subject to maximum price controls. Eligibility for Government subsidies to offset the differences between the processor's costs and the ceiling price of the product can depend on processor compliance with the support price for the raw commodity. In addition, growers who sell their corn to CONASUPO receive an additional payment through a special program of the National Rural Credit Bank. Other factors in production decisions by growers are access to Government-controlled irrigation resources and the application of an export tax against certain agricultural products. Another possible consideration for producers is the availability of imported inputs, since imports are stringently controlled by the Government.

Mexican agricultural policy has long been most concerned with the production of basic commodities—corn, beans, other grains, and oilseeds—and the implementation of the SAM increases the focus on these commodities. However, this has not been to the complete exclusion of efforts in other sectors. An Agricultural Development Law (LALD) which took effect in January 1981 may have far-reaching implications for the entire agricultural sector.

The underlying precepts of the Mexican agricultural system stem from the revolutionary edict that “land belongs to those who cultivate it.” This was incorporated into the Mexican Constitution in the form of support for communal “ejido” farms and a promise that the Government would redistribute extensive landholdings. Much of the land redistribution has occurred. Now Mexico is faced with a dwindling amount of cultivable land left to be repartitioned and with depopulation of rural areas as campesinos (or country people) migrate to urban areas in search of more acceptable standards of living. The Agricultural Development Law is part of the Government’s effort to deal with these problems and increase the country’s agricultural output. One of the law’s many provisions permits ejidos and small private landowners to join in “production units,” with the goal that capital investment in equipment, infrastructure, and farm inputs will increase and lead to expanded production. The Mexican Government will share production risks in rainfed areas with producers who comply with the LALD, which includes strict requirements for the direct and personal working of landholdings and restrictions on leaving lands idle. Irrigated landholdings of less than 5 hectares, the equivalents in other classes of land, and lands that are insufficient to yield a profit double the minimum farm wage of the region are not to be subdivided further. The LALD also repealed the prohibition on crop production on land designated for livestock grazing, although it placed certain constraints on such production. This change in policy may eventually reduce the total grazing land in the country at a time when demand for meat is rapidly growing.

The export-oriented Mexican horticultural industry, one of the most commercialized and modern sectors of the nation’s

agriculture, has long benefited from Government irrigation projects. Export taxes levied against these products have often been waived when particular crop or marketing conditions were unfavorable to the Mexican producers. In discussing the SAM and the renewed focus on producing basic commodities, President Lopez Portillo stated that the export-oriented horticultural sector’s contribution to the Mexican trade balance was very significant, particularly given the small proportion of agricultural lands involved. Therefore, he feels that it should not be restricted by the SAM.

Mexico was once a major sugar producer and exporter, but production has not kept pace with increasing domestic demand and it has resorted to importing sugar in recent years. The sugar industry, facing controlled retail prices, failed to modernize or even properly maintain its processing capacity. The Mexican Government, through its sugar commission (UNPASA), has progressively been acquiring direct control of much of the country’s sugar industry in an effort to increase production and negate the need for imports.

The Government also controls the tobacco and henequen industries in Mexico, primarily by requiring that all commercial production be sold to the responsible Government agencies (TABAMEX and CORDEMEX, respectively). Production per se is not restricted but the grower prices are manipulated to encourage or discourage production.

Government control of exports through a licensing requirement also directly affects many agricultural sectors, particularly when domestic demand must be satisfied before exports are permitted. Cocoa and coffee are two products regulated in this way.

TRADE POLICIES

The principal objective of Mexico’s trade policy is to avoid emulating the single export, inflation prone, and import dependent economies of so many of the major oil exporting nations. Rather, Mexico seeks to regulate its exports of oil strictly in order to control inflation and, at the same time, it seeks to increase the competitiveness of its other exports. Another major Mexican policy is to diversify trading partnerships, both markets and suppliers, and move away from an overwhelming involvement with the United States.

The Secretariat of Commerce is the principal institution regulating Mexican trade in accordance with policy directives often given by the Foreign Ministry. The Commerce Secretariat is responsible for issuing permits for imports and exports, when required, and for establishing tariffs. When the import permits are for agricultural products, the Secretariat of Agricultural and Water Resources must also give its approval. Approval from CONASUPO (the National Basic Commodities Company) or livestock associations may also be required.

CONASUPO plays a key role in the importation of grains, oilseeds, and nonfat dry milk (NFDM) because it has prime responsibility for their distribution. For many of these prod-

ucts, CONASUPO is the sole importer, although at times it purchases for the account of a particular private importer or association. Only recently have private processing firms and other end users of imported commodities formed committees to encourage the Government to take better account of their particular import needs. Nonetheless, because of the licensing requirement, CONASUPO or the Secretariat of Commerce maintains ultimate control over the importation of these basic commodities. Most regulation and policies affecting the import or export of products are established by Executive Decree, not legislation.

A basic goal of Mexico is to increase agricultural exports and thus lessen reliance on oil exports, while still ensuring that adequate supplies are available to meet domestic needs. Another policy goal is aimed at diversifying Mexico’s trading partners. Over two-thirds of Mexico’s agricultural exports are now sold to the United States. Many of these agricultural exports require licenses and are subject to export taxes. In some cases, the licensing is used to restrict exports so that domestic needs will be met—such as for coffee—and to regulate exports to achieve optimal prices. In the case of horticultural products, the Mexican Government is concerned with avoiding any potential unilateral restrictions which

might be imposed by the United States if Mexican exports become excessive. There does not appear to be any overall incentive to increase the production of export crops, but given the Mexican focus on the production of basic commodities, the lack of a particular disincentive can be seen as significant encouragement.

The design of Mexico's agricultural import policy is based on its goal of providing the basic necessities of life to all of the country's population. While it seeks to establish self-sufficiency in the production of basic foodstuffs, starting with corn and beans, the policy acknowledges Mexico's need to import these goods until domestic production can be increased sufficiently. At the same time, imports of commodities that compete with Mexican production or are "luxury" items are essentially prohibited. Because of these different basic objectives, Mexican agricultural import policy can be seen as two separate policies both allowing and discouraging imports.

For basic commodities—mostly grains, oilseeds, tallow, lard, and NFDM—the Mexican Government has usually handled imports directly and actively itself, although private direct imports are occasionally permitted. In January 1980, the Mexican Government sought an agreement with the United States that would more formally recognize the purchases that the Mexicans would need to make and involve the U.S. Government in helping them make those purchases. The first agreement covered 4.76 million metric tons (MMT), but it was later expanded to cover 7.22 MMT. The agreement for calendar year 1981 indicated purchases of 6.15 to 8.18 MMT. Through these agreements, the Mexican Government hopes to reassure its public that supplies of basic foods will be available. Importation of these products is in most cases directly handled by CONASUPO. Mexican businesses wishing to import other basic commodities are still subject to strict Government controls, but this is largely because of the strain on the transportation and distribution systems that massive imports have caused. With the Government's main concern being to import basic foodstuffs and distribute them around the country as required, the import needs of particular individuals may at times be overlooked.

For nonbasic commodities, products that compete with those produced in Mexico or are considered luxury items, imports into Mexico are very restricted. Horticultural products, canned foods, nuts, and specialty items are often not granted the required import permit and, thus, are kept out of the country. For many products, separate and more lenient import requirements exist for the border areas. This encourages border residents to purchase their food supplies in Mexico rather than in the United States.

Basically, Mexican import tariffs are high relative to most of the developed world, but not out of line with those found in developing nations. Mexico chose not to accede to the General Agreement on Tariffs and Trade (GATT) and is not subject to the rules of that international trading institution. Because of this, Mexico can, and often does, change its import duties without giving notice to the affected supplying countries, and it does so without obligation to compensate

for any trade impaired. The requirement for an import (or export) permit is likewise subject to frequent changes, usually without prior announcement. Mexico has long maintained an "official value" system of valuation whereby ad valorem duties on imports and exports are collected on the basis of established "official prices" if those prices are higher than the actual invoice value. In July 1979, Mexico began to gradually eliminate this system and replace it with an invoice valuation procedure, but many agricultural products remain subject to official valuation. In addition, the Mexican Government has maintained its right to use official valuation to control imports in the future.

Mexico is a member of the Latin American Integration Association (LAIA), the successor of the Latin American Free Trade Association (LAFTA). It grants preferential duty rates on specified imports from other LAIA countries and, at times, also waives the licensing and/or official valuation requirement on LAIA imports. Although these policies are designed to support the LAIA goal of increased regional trade, there does not appear to be an active Mexican effort to increase trade with other LAIA countries.

The Mexican Government has frequently mentioned its goal of diversifying the nation's trading partners, although there appears to be no active program to do so in agriculture. Trade in agricultural products with countries outside of Latin America is not large, but Japan, Canada, and the Western European countries are markets for some Mexican exports.

U.S.-Mexican agricultural trade relations are complicated by the fact that Mexico is simultaneously a major supplier of complementary products to the United States, a stiff competitor with some U.S. products, and, particularly in recent years, a principal market for U.S. farm exports. On the other hand, Mexican import restrictions differ considerably for basic versus competitive imports, further complicating the trade relationship. There is, therefore, no overall trading relationship established but rather differing ones depending on the types of products involved.

U.S. import restrictions on Mexican goods generally consist only of relatively low import duties. In the case of complementary products, such as coffee, cocoa, bananas, and other tropical products, few trading problems exist. Most of these types of commodities enter the United States free of duty, at times under the Generalized System of Preferences (GSP).

Many of the principal Mexican agricultural exports to the United States, including horticultural products such as winter vegetables, strawberries, and melons, are directly competitive with U.S.-produced goods. Similar climatic conditions result in crops that have similar marketing seasons. For example, during the winter months, Mexican vegetables may account for half of the supplies available to U.S. consumers. Sometimes no problem exists because of the size of U.S. market for these products. But at other times, when crop or marketing conditions are such that the large volume of produce from Mexico may contribute to poor returns to producers, the U.S. industry may vigorously seek to restrict the flow of goods from Mexico. Perhaps the most publicized and recurrent example of this is the competition between Mexico's

and Florida's winter tomatoes, cucumbers, egg-plant, squash, and green peppers. At one point this competition led to the legal charge by Florida that Mexico was "dumping" its produce on U.S. markets at unfairly low prices. Although the U.S. Department of Commerce did not find in Florida's favor in the case, the decision is still being appealed. The rancor resulting from this situation has led to discussions at the highest levels of both governments. Competition in other horticultural products, such as melons, strawberries, and asparagus, has not reached the proportions of the competition in winter vegetables, but these other crops are still a cause of concern in the trading relationship.

There are many Mexican exports, such as live cattle, that are generally considered supplementary and beneficial even though they compete with U.S. production. When market conditions are poor for U.S. producers, however, the Mexican contribution to total U.S. supplies may not be considered advantageous and U.S. producers may take issue with the access afforded Mexican products.

Some imports from Mexico are subject to quantitative or other U.S. import restraints—usually under Section 22 of the Agricultural Adjustment Act of 1933. Such products include cotton, peanuts, dairy products, and sugar. The actual effects on Mexican exports are virtually insignificant. Meat imports from Mexico are regulated by the Meat Import Act of 1979, but since Mexico has essentially ceased to export meat because of its domestic shortages, this restriction is also insignificant. Section 8e of the Agricultural Adjustment Act of 1937 requires that certain imported products must meet the same minimum quality/grade requirements that may be imposed on similar U.S. produce at that time. This does impose

minimum quality standards on some Mexican horticultural commodities, but in recent years Mexico has had no difficulty in meeting those standards.

As a market for U.S. farm products, Mexico has grown dramatically in the last few years. Much of this has resulted from poor Mexican production of corn, beans, and other basic products due to adverse weather. But the growth of demand in Mexico—both because of population growth and increases in per capita income—is so great that it is likely Mexico will continue to expand as a market for U.S. farm goods, albeit at a less precipitous rate than recently. Access to the Mexican market is therefore as important to the U.S. farm sector as is access to the U.S. market for Mexican agriculture. However, aside from the basic commodities which the Mexican Government is actively importing, import restrictions pose a prohibitive barrier to U.S. goods.

However complicated the relationship may be, there is no doubt of the growing importance of U.S.-Mexican agricultural trade to both countries. The dramatic rate of increase in this trade which occurred in 1980 and 1981 may not be repeated as Mexican domestic production recovers and begins to expand under the SAM and development law programs. Nonetheless, given the limitations on Mexican agricultural production and the growing demands of that country, the trade between Mexico and the United States can be expected to continue growing for some time in the future. To make this increased trade relation beneficial to the peoples of both countries, the many trade problems and irritations which have characterized U.S.-Mexican trade in the past will need to be resolved.

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